

---

# Medical Savings Accounts Fact Sheet

---

## What is a medical savings account?

A medical savings account (MSA) is similar to an individual retirement account (IRA). You set aside money in the MSA that can be used to pay for out-of-pocket medical expenses. Unlike many flexible spending accounts, the money left at the end of a year is carried over to the next year and continues to earn interest. Your contributions to the account are tax deductible.

An MSA is set up in conjunction with a major medical health plan. Sometimes these plans are referred to as “catastrophic” coverage. This plan will carry a high deductible with lower monthly premiums. Plans currently offered in Kentucky are a more traditional fee for service (FFS) and preferred provider organization (PPO) product. The FFS allows you to go to any doctor or provider you want and submit the claim for payment. In a PPO, providers participating in the plan offer services at a reduced rate.

## Who can buy MSAs?

In general, the following:

- ◆The self-employed
- ◆Those who work for a company with fewer than 50 workers if the company offers an individual or family health plan with a high deductible
- ◆The spouse of either of the above



## What are some advantages of an MSA?

- ◆The interest earnings are tax-free.
- ◆Contributions “roll over” from one year to the next.
- ◆If your employer contributes to your MSA, that amount is excluded from your gross income and is not subject to withholding for income taxes, Social Security or Medicare.
- ◆If you switch jobs, you can take the account with you.
- ◆You can claim a tax deduction even if you don’t itemize.

## Are there limits to how much I can contribute?

Either you or your employer can make contributions to your MSA but both of you cannot do so in the same year. There are limits to the amount that can be contributed. In general, you can contribute up to 65 percent of your deductible if you have an individual plan; up to 75 percent if you have a family plan. In some cases, you may be limited to less than those amounts. For example, if you are self-employed, you cannot contribute more than your net income, regardless of the percentage of your deductible.

## What can I pay for out of my MSA funds?

Check with the entity administering your MSA for the complete IRS-qualified medical expenses list. Some items included are:

- ◆ acupuncture
- ◆ alcoholism treatment
- ◆ ambulance hire
- ◆ artificial limb
- ◆ birth control pills
- ◆ braces
- ◆ chiropractic services
- ◆ contact lenses
- ◆ dentures
- ◆ eyeglasses and eye examinations
- ◆ guide animals
- ◆ hearing aids
- ◆ insulin
- ◆ prescription drugs and medical supplies
- ◆ prescription vitamins
- ◆ smoking cessation program
- ◆ wheelchair

## Where can I go for more information?

Additional information is available from the Internal Revenue Service. Publications and forms are available at the IRS Web site, [www.irs.gov](http://www.irs.gov), or by calling 800-829-3676. The TTY/TDD number for the hearing impaired is 800-829-4059. You can hear pre-recorded messages relating to tax topics by calling 800-829-4477. Of particular interest might be Publication 502 (Medical and Dental Expenses) and Publication 969 (Medical Savings Accounts). You can also contact your employer or MSA trustee for more information.

**In most cases, MSAs count  
as creditable coverage.**

## Are there disadvantages to an MSA?

Critics say MSAs will attract mainly healthy people creating higher premiums for the low-deductible health plans in the regular market, eventually crowding out these traditional plans because insurers will be unable to operate them with a remaining pool of unhealthy people. There is a fear that MSAs will be used as an investment tool, not to save money for medical expenses. If you or a family member has a frequent or chronic medical condition, you could face large out-of-pocket payments.

## Can I have other health insurance with my MSA?

In general, you cannot have a health plan other than your high-deductible plan. However, according to the IRS, this rule does not apply to health plans that cover *only* the following:

- ◆ accidents
- ◆ disability
- ◆ dental care
- ◆ vision care
- ◆ long-term care
- ◆ benefits related to workers' compensation laws, tort liabilities or ownership/use of property
- ◆ a specific disease or illness
- ◆ a fixed amount per day (or other period) of hospitalization

---

### Currently selling MSAs in Kentucky are:

#### Fortis

If the first three digits of your zip code are 400-402, 410 or 420-427, call 800-870-2011.

All others, call 888-376-3300.

#### John Alden

(859 and 606 area codes) 800-777-6762

(502 and 270 area codes) 800-274-6762

#### Anthem/Farm Bureau

Contact a local Farm Bureau agent.

**Do you need information about insurance issues? Do you want to file a complaint?  
Contact your state Department of Insurance.**



## Kentucky Department of Insurance

P.O. Box 517, Frankfort, KY 40602-0517

Toll free: 1-800-595-6053 Hearing impaired : 1-800-462-2081

<http://www.doi.ppr.ky.gov>

March 2003